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**BANKING AND CURRENCY SYSTEM IN NORTH VIETNAM**

By Klaus Kolloch

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## BANKING AND CURRENCY SYSTEM IN NORTH VIETNAM

Following is the translation of an article by Klaus Kolloch, in Deutsche Finanzwirtschaft, Vol XIV, No 17, Berlin, September 1960, pages G 334 - G 335/

Looking at the development of the banking and currency system in the People's Republic of Vietnam we have to bear in mind that Vietnam was, until 1945, a semi-feudal agricultural country and a French colony. After the August 1945 Revolution there was established, on 2 September 1945, the People's Republic of Vietnam. Until the Geneva truce negotiations in 1954, however, relentless fighting of the resistance forces against the French imperialists continued. At present, Vietnam is still divided; the line is close to the 17th parallel and the northern part is the territory of the People's Republic.

As a result of this development, great difficulties also appeared in the sphere of banking and currency-control. The banking system built up by the French imperialists and comprising primarily the Bank of Indochina, the Chinese-French Bank, the Foncer Credit Bank (a mortgage bank) and the Agrarian Bank could not be nationalized at once. Only the Agrarian Bank was placed under the control of the Government of the People's Republic. In 1947, it was replaced by the "Industrial Credit Administration" which by its nature was not an actual bank. In addition to this, there are institutions of mutual assistance in the country.

Especially in the field of currency circulation, the situation was very difficult and confused. The cities and settled areas that were temporarily under the domination of the French imperialists used the money of the Bank of Indochina, the core of the imperialist financial capital, which remained in French possession. The rural areas used only notes issued by the People's Republic; whereas, in the fighting areas both the paper currency of the People's Republic and the money of the Bank of Indochina circulated.

On the 6 of May 1951, the State Bank of the People's Republic of Vietnam was established. The main tasks of this bank were: to issue notes, to regulate the circulation of money and the credit business of industry and agriculture, temporarily to mobilize the free means of the population, to

administer the state treasury, to manage the foreign exchange affairs and settlements with foreign countries, and to direct the currency and credit policy.

A balance of the income and the expenses in the state budget was achieved in the fiscal year 1952-1953. The endeavor after stable economic relations brought about coordination of the work of state trade, finance, and banking. Credits were granted up to the end of 1951, first of all to farmers and small producers. The agricultural sector received 61% of all credits, because the farmers were the main force in the anti-imperialist and anti-feudal revolution. The credits enabled the farmers to procure means of production and to solve irrigation problems. Between 1952 and 1954, the business sector received 93% of the credits in order to strengthen the exchange of agricultural and forest products and to help the development of agricultural production.

After the Geneva Truce Conference there began in the People's Republic of Vietnam, in 1955, a period of revival of the national economy. In conditions where private small-scale production was still predominant, the first frail elements of a socialist economy sprang up. Since the years 1956-57 the Vietnamese economy has been developing on the basis of yearly plans.

Immediately after peace was secured, steps were taken to apply the laws of currency circulation in accordance with the new situation in Vietnam. In this connection, a number of difficulties arose, as within the strong private-business sector considerable seasonal fluctuations of the economy had to be taken into account. In principle, the task was to bring the funds of state institutions and establishments under control, to develop a system of transfer payments requiring no ready money, to introduce planning of currency circulation, and to restrain by all means the spontaneous nature of money in the "free market". In 1957, decisive measures were taken to subject the circulation of money to controls. The State Bank restricted immediate credits to farmers and withdrew those credits that had been granted in the country. At the same time, the striving for mobilization of savings gained in power. Savings grew from 96 million dong (end of 1955) to 23 billion dong (end of 1957) and represented 17% of the total means covered by the Bank.<sup>(1)</sup> The measures taken by the state brought the expected success. Prices went down to the level fixed by the state and remained stable. The volume of goods increased from 1955-1957 almost six times. Moreover, the circulation speed of the currency could be accelerated from two circulations (in the year 1955) to three (in 1957) and the quantity of the circulating money could be reduced by some 10%. Credit was given primarily to the state economic sector, above all to state trade. The influx of bank credit to the state

sector of industry, agriculture, and transportation remained, however, small, as in these enterprises the basic and the circulating means were not appreciated, and economically adequate means were not yet allotted to them. The cost accounting system was introduced only in 1957. The distribution of credit to individual farmers by the State Bank began practically in 1957 and thereby the credit corporations in the country were supported. By the end of 1957 there existed approximately 230 settlements of the credit corporations in the country.

After the period of revival of the national economy, the People's Republic of Vietnam entered into the transitory period to socialism. The great Three-Year Plan, 1958-1960, was marked by a 78% increase in industrial and agricultural production, in comparison with 1957. The substantial point of this Plan is the socialist reconstruction of agriculture. (2) In industry the plan includes 40 new large establishments. (3) The State Bank of the People's Republic of Vietnam is nowadays a socialist bank. Its operations are co-ordinated with those of the Ministry of Finance and with the state trade sector, and are based on quarterly plans. At present it is not yet possible for the People's Republic to compile an accurate balance sheet of the income and expenses of the population. The state plan for money circulation is made up for one year, in order to serve as a balance between the volume of money and the volume of commodities. In addition to this, the quantity of commodities for disposal, the income and expenses of the state economy, and the income and expenses of the establishments are planned and taken into consideration in the regulation of currency circulation.

In order to strengthen the role of bank credit in the period of socialist reconstruction of the national economy the following decisions have been made:

(1) All distribution of bank credit is concentrated in the State Bank and short- and long-term credits are limited.

(2) In cooperation with the Ministry of Finance, a definite limitation of the circulating means of the individual establishments and a limitation of bank credit is being carried out. The Bank is to take part in preparation of the norms for the allotment of funds to be distributed for the respective economic purposes.

(3) The mutual crediting of establishments, and also commercial credit, is being gradually built up. The State Bank has already provided for an application of the main principles of accounting as well as the most important forms of collection, acceptance, special accounts, checks, and payment.

(4) The mobilization of savings of the population is being expanded in order to increase the resources of the State Bank.

The decision to apply the cost accounting system and to

organize accounting in the individual branches of the economy is of great importance to a successful functioning of the credit policy of the State Bank. As a rule, nearly all enterprises have superfluous funds. This hinders the application of direct bank credit. Similarly, it has not yet been possible to introduce such socialist credit principles, as specification of the purpose, repayment at a stipulated term, and submitting of a guarantee. The stipulation of the term, the control of the use, and the bank guarantee were not practicable, as the amin corporations were not able to present in time the necessary advices concerning the condition of goods and the estimates. The state enterprises in industry, agriculture, transportation, postal and communication services were financed in the yearly plan from the state treasury, and all the funds necessary for a continued production were provided.

Generally speaking, the State Bank has been granting credit only to establishments of a strictly seasonal character, and for the purpose of overcoming extraordinary difficulties. Last year, the State Bank of North Vietnam prepared a change in granting credits. According to it, seasonal enterprises will receive funds in the amount required for the lowest quarter, and the remaining needs for cash will be supplied by the Bank in the form of credit. Those establishments which operate without seasonal interruptions should be self-sufficient with a fixed percentual allotment. The state domestic trade, e.g., receives according to the 1958 regulations of the State Bank 30% of the necessary funds from the State treasury and the rest as bank credit. Unsalable commodities are not financed by the Bank. Upon a decision of the Central Committee of the Labor Party of Vietnam (Lao Dong) and the Government of the People's Republic of Vietnam, on 18 February 1959 the old currency was replaced by a new one, at a rate of 1000:1, while the prices of merchandise remained unchanged; credit and cash were treated similarly. The market stabilized immediately after the exchange.

The success with which the People's Republic of Vietnam achieved the consolidation of the currency situation and of finances in spite of the great difficulties was possible only thanks to a successful application of the Marxian theory of money, the study of the experiences of the USSR and other people's democracies, the brotherly help of the socialist camp and the indefatigable struggle of the leading cadre and all the Vietnamese people.

Proclamation of the People's Republic of Vietnam in September 1945. Military attempts of the French to renew colonial rule ended in 1954 with a heavy defeat of the French.

Population of the PRV: 14.5 million

Total area: 155,203 sq. km  
Capital city: Hanoi (1953 -- 300,000 inhabitants)  
Mineral resources: coal, zinc, lead, tungsten, etc.  
Agricultural products: primarily rice, corn, sugar  
cane, and peanuts

Footnotes:

- (1) These and the following data are from the documents of the Conference of the Central Bank Managers of the Socialist Countries which met in Prague in May/June 1958.
- (2) In July 1959 there were 16,150 agricultural producers cooperatives (21% of all farm families).
- (3) Among these were: a steelworks, a steelworking-machine plant, an oil refinery, a plant for production of nitrogen, and a textile mill. See Neues Deutschland, No. 17, 17 January 1959: "Even Vietnam Makes a Big Leap'."